

**Introduced by Senator Kuehl**

February 24, 2006

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An act to amend Section 19602 of, and to add Sections 17044.1, 17044.2, 17044.3, and 19602.6 to, the Revenue and Taxation Code, relating to taxation, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 1784, as introduced, Kuehl. Taxation: The California Health Insurance Reliability Funding Act.

The Personal Income Tax Law, which is administered by the Franchise Tax Board, imposes taxes upon the taxable income of individual taxpayers, at specified rates, based on the amount of the taxpayer's taxable income and alternative minimum taxable income.

This bill, for taxable years beginning on or after January 1, 2007, would impose, at unspecified rates, an additional tax on the taxpayer's taxable income that exceeds \$200,000, a tax on self-employment income, as defined, of an individual taxpayer and a tax on nonwage income, as defined, of a taxpayer. This bill would require all revenues received by the Franchise Tax Board from those taxes be deposited in the Health Insurance Fund, as provided.

This bill would also authorize the Franchise Tax Board to promulgate rules and regulations to implement the provisions imposing all those additional taxes.

This bill would result in a change in state taxes for the purpose of increasing state revenues within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of  $\frac{2}{3}$  of the membership of each house of the Legislature.

Vote:  $\frac{2}{3}$ . Appropriation: yes. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. Section 17044.1 is added to the Revenue and Taxation Code, to read:

17044.1. (a) For each taxable year beginning on or after January 1, 2007, in addition to any other taxes imposed by this part, an additional tax shall be imposed on the portion of a taxpayer's taxable income that exceeds two hundred thousand dollars (\$200,000), at the following rates:

(1) \_\_\_\_ percent on that portion of a taxpayer's taxable income that exceeds two hundred thousand dollars (\$200,000) but is not over one million dollars (\$1,000,000).

(2) \_\_\_\_ percent on that portion of a taxpayer's taxable income that exceeds one million dollars (\$1,000,000).

(b) For purposes of applying Part 10.2 (commencing with Section 18401) of Division 2, the tax imposed under this section shall be treated as if imposed under Section 17041.

(c) The following provisions do not apply to the tax imposed by this section:

(1) The provisions of Section 17039, relating to the allowance of credits.

(2) The provisions of Section 17041, relating to filing status and recomputation of the income tax brackets.

(3) The provisions of Section 17045, relating to joint returns.

SEC. 2. Section 17044.2 is added to the Revenue and Taxation Code, to read:

17044.2. (a) For each taxable year beginning on or after January 1, 2007, in addition to any other taxes imposed by this part, there shall be imposed a tax on the self-employment income of every individual taxpayer in an amount equal to \_\_\_\_ percent of the amount of that taxpayer's self-employment income for that taxable year.

(b) For purposes of this part, all of the following definitions apply:

(1) (A) "Self-employment income" means the net earnings from self-employment derived by an individual during any taxable year, except as otherwise provided.

(B) The term "self-employment income" does not include the amount of net earnings for the taxable year that is less than seven

1 thousand dollars (\$7,000) or more than two hundred thousand  
2 dollars (\$200,000).

3 (2) “Net earnings” means net earnings from self-employment,  
4 as defined in Section 1402(a) of the Internal Revenue Code.

5 (c) For purposes of applying Part 10.2 (commencing with  
6 Section 18401) of Division 2, the tax imposed under this section  
7 shall be treated as if imposed under Section 17041.

8 (d) The Franchise Tax Board shall prescribe rules and  
9 regulations to implement the provisions of this section.

10 SEC. 3. Section 17044.3 is added to the Revenue and  
11 Taxation Code, to read:

12 17044.3. (a) For each taxable year beginning on or after  
13 January 1, 2007, in addition to any other taxes, there shall be  
14 imposed on nonwage income of every individual taxpayer a tax  
15 in an amount equal to \_\_\_\_ percent of the amount of the  
16 nonwage income of that individual for that taxable year.

17 (b) (1) For purposes of this part, “nonwage income” means  
18 the amount of adjusted gross income, as defined in Section 62 of  
19 the Internal Revenue Code, of an individual minus net earnings,  
20 if any, as defined in Section 17044.2, minus the amount of  
21 wages, if any, as defined in Section 18354, received by the  
22 individual.

23 (2) For purposes of this section, the term “nonwage income”  
24 does not include any amount in excess of two hundred thousand  
25 dollars (\$200,000).

26 (c) For purposes of applying Part 10.2 (commencing with  
27 Section 18401) of Division 2, the tax imposed under this section  
28 shall be treated as if imposed under Section 17041.

29 (d) The Franchise Tax Board shall prescribe rules and  
30 regulations to implement the provisions of this section.

31 SEC. 4. Section 19602 of the Revenue and Taxation Code is  
32 amended to read:

33 19602. Except for amounts collected or accrued under  
34 Sections 17935, 17941, 17948, 19532, and 19561, ~~and revenues~~  
35 deposited pursuant to Section 19602.5, *and revenues deposited*  
36 *pursuant to Section 19602.6*, all moneys and remittances  
37 received by the Franchise Tax Board as amounts imposed under  
38 Part 10 (commencing with Section 17001), and related penalties,  
39 additions to tax, and interest imposed under this part, shall be

1 deposited, after clearance of remittances, in the State Treasury  
2 and credited to the Personal Income Tax Fund.

3 SEC. 5. Section 19602.6 is added to the Revenue and  
4 Taxation Code, to read:

5 19602.6. (a) Notwithstanding Section 13340 of the  
6 Government Code, the revenues received by the Franchise Tax  
7 Board from additional taxes imposed under Sections 17044.1,  
8 17044.2, and 17044.3 shall be deposited in the Health Insurance  
9 Fund, and shall be continuously appropriated, without regard to  
10 fiscal years, to the California Health Insurance Agency for  
11 purposes of administering health care benefits under the  
12 California Health Insurance System, as defined in Division 112  
13 of the Health and Safety Code.

14 (b) Based on the procedures set forth in Section 19602.5, the  
15 Franchise Tax Board, in consultation with the Legislative  
16 Analyst shall, by November 15, 2007, establish by regulation a  
17 transfer rate and a mechanism for adjustment that permits  
18 estimated revenues from the additional taxes imposed by  
19 Sections 17044.1, 17044.2, and 17044.3 to be transferred by the  
20 Controller to the Health Insurance Fund on a monthly basis,  
21 subject to an adjustment based on the procedures set forth in  
22 Section 19602.5 to account for any difference between estimated  
23 revenues and actual revenues.